

## MAJOR AMENDMENT TO LEGISLATION ON THE REGISTRATION OF ULTIMATE BENEFICIAL OWNERS

On October 1, 2022 an amendment (the “Amendment”) to the Act on the Registration of Ultimate Beneficial Owners (the “UBO Act”) came into effect.

The Amendment aims to coordinate national legislation with EU legislation, in particular the AML Directive, which regulates the mechanisms to counter money laundering and prevent financing of terrorism. The previous wording of the UBO Act was not in compliance with this Directive, and the European Commission commenced proceedings against the Czech Republic due to its incorrect implementation.

The Amendment involves the following changes to the UBO Act:

### a) Change in definition of ultimate beneficial owner

The Amendment cancels the former distinction between the (economic) final recipient and person with final influence. The ultimate beneficial owner is now defined as the natural person who ultimately owns or controls a legal entity or legal organization.

In this connection the Amendment also introduces new criteria for determining the ultimate beneficial owner, under which a corporation is owned or controlled by every natural person who directly or indirectly:

- i. has a share in the corporation or voting rights of more than 25%;
- ii. has the right to a share in the profits, other equity or liquidation balance larger than 25%;
- iii. exercises a deciding influence in the corporation or in corporations that have a share in the given corporation, separately or jointly, of greater than 25%; or
- iv. exercises a deciding influence in the corporation by other means.

### b) Entities newly required to register their ultimate beneficial owners

The Amendment also changed the definition of the entities affected by the exception of the non-existence of an ultimate beneficial owner. Now entities such as political parties and movements, churches and religious societies, union organizations, hunting societies, and owners’ associations will have to register their ultimate beneficial owners. Most of these subjects, however, should be registered automatically.

Considering the above (replacing the economic final recipient with the concept of ownership, i.e. a change in perception of the 25% indicator), many subjects may have different persons registered in the list of ultimate beneficial owners.

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Please note in this connection that in the event of incorrect registration, corporations risk administrative offences with fines of up to CZK 500,000 as well as losing the opportunity to divide profits and voting rights. If the ultimate beneficial owner is not registered correctly, notaries may refuse to notarize certain legal acts (e.g. during a General Meeting). Over time we are seeing a growing number of cases where banks will not provide a loan (or other financial services) to clients whose registered ultimate beneficial owner is not registered (or registered incorrectly), as the company does not meet the conditions of the required inspections to prevent money laundering or other measures (KYC or AML inspections).

We must recommend checking the ultimate beneficial owner registration and confirming that it is up-to-date and compliant with the new legislation. Companies with a duly registered ultimate beneficial owner under the previous legislation must bring their registration into compliance with the new requirements within six months of the Amendment taking effect, i.e. by **April 1, 2023**.

We will be happy to discuss any questions you may have.

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